

MULTIPHASE PROGRAM FOR SUSTAINABLE ROADS IN RURAL AREAS

(ES-0129)

EXECUTIVE SUMMARY

Borrower:	Republic of El Salvador		
Executing agency:	Ministry of Public Works, Transportation, Housing and Urban Development (MOP)		
Amount and source:		PHASE I	PHASE II
	Local:	US\$17.12 million	US\$14.60 million
	IDB: (OC)	US\$58.00 million	US\$47.00 million
	Total:	US\$75.12 million	US\$61.60 million
Terms and conditions:	Amortization period:	25 years	
	Grace period:	3 years	
	Disbursement period:	3 years	
	Interest rate:	Variable	
	Inspection and supervision:	1 %	
	Credit fee:	0.75 %	
	Currency:	United States dollars under the Single Currency Facility	
Objectives:	The objective of the proposed program is to promote passenger and freight transportation by rehabilitating a portion of the tertiary road system in rural areas, establishing new systems for road maintenance, and modernizing the transportation sector's institutional structure, thereby helping to reactivate the agricultural sector, integrate rural communities, and improve the standard of living of the rural population. In addition, the program will contribute to the reconstruction and rehabilitation of approximately 100 km of sustainable rural roads that were damaged by the 13 January 2001 earthquake.		
Description:	The proposed operation will be carried out as a multiphase program, with two execution phases lasting approximately three years each. The program has four components: (i) the first component will support the rehabilitation and improvement of approximately 600 km of tertiary gravel roads in rural areas (300 km in each phase); (ii) the second component will support the reconstruction and rehabilitation of approximately 100 km of sustainable rural roads that were		

damaged by the 13 January 2001 earthquake; (iii) the third component will support the establishment and consolidation of new road maintenance systems during phase I of the program; and (iv) the fourth component will contribute to the MOP modernization process in terms of its role as the agency in charge of regulation, planning, promotion and supervision for the road infrastructure.

Under a multiphase program, the scale of the operation can be adjusted to the levels of indebtedness agreed on by El Salvador in the operations program. In addition, the authorities have agreed on benchmarks in the MOP institutional reform process that will help ensure the sustainability of the road system. The proposed program will support implementation of the institutional reform, allocating resources to support the establishment of a sustainable mechanism for road maintenance and the program to use microenterprises in road preservation activities.

The Bank will process phase II of the program by verifying that the objectives of phase I have been substantially achieved, including satisfactory execution of phase I works and fulfillment of the benchmarks previously agreed upon. Progress in the fulfillment of these conditions will be monitored through the system of periodic consultation meetings mentioned in paragraph 3.20. Based on the first phase evaluation report and the findings of the supervision and evaluation mission, a memorandum will be submitted to the Board of Executive Directors regarding approval of phase II.

**The Bank's
country and
sector strategy:**

The proposed program is consistent with the Bank's strategy in El Salvador, which emphasizes reactivating the economy, improving the social situation, and reducing poverty, especially in rural areas. In addition, in the case of natural disasters with serious repercussions, such as the recent earthquake, the Bank supports the relief efforts made by its member countries to address the socioeconomic and environmental impact of the unforeseen event. At the end of 1999 and beginning of 2000, an Interdivisional Working Group from Regional Operations Department 2 prepared a paper entitled "Developing the Economic Potential of Rural Areas in El Salvador", which has been discussed with the government authorities. The paper analyzes the principal problems underlying the rural recession in El Salvador and describes the opportunities for drafting policies and identifying investments to fully develop the economic potential of the country's rural areas. The proposed program responds to one of the recommendations made in the paper to address the lack of year-round, affordable vehicular access to rural areas, which is one of the factors impeding their development and integration with the national

economy. The availability of transportation is crucial in helping ensure labor force mobility, efficient transportation of agricultural and other rural products, and access to productive and social services, including schools and health clinics.

**Environmental
and social
review:**

The program does not entail any significant adverse social and environmental impact, since it involves rehabilitating and improving existing roads in already developed areas; the impact is localized and foreseeable and can be mitigated. The rehabilitation works to be carried out under the program do not entail any major difficulties in construction, any resettlement, or any plans to reroute roads. Social and environmental impact assessments (EIAs) and the corresponding environmental management action plans (PAMAs) with specific protection measures have been prepared for the five projects selected for the first year. The assessments indicate that the projects will have a positive impact overall. The little adverse environmental impact they will have are of medium to low intensity, scope, and duration and are reversible and geographically limited. The assessments also indicate that none of the projects entails new development in the project areas of influence, and that the works will improve access to agricultural areas. The project designs include the environmental measures and budgetary allocations necessary to mitigate any adverse social and environmental impact. The respective EIAs and PAMAs must be prepared for the roads damaged by the earthquake before the bidding process can be initiated.

Benefits:

The works to be carried out under the proposed program will help ensure more affordable access to agricultural markets for surrounding areas, because of lower vehicle operation costs resulting from the improved condition of the selected roads. The more functional, rehabilitated roads will help reduce travel times for passengers in light vehicles and buses. In addition, to the extent that savings in vehicle operation costs are passed on to passengers and farmers and that these people are members of low-income groups, the program will generate not only economic, but also social benefits resulting from an improved distribution of income in the project areas of influence. The same benefits will accrue from the reconstruction and rehabilitation of earthquake-damaged rural roads.

Risks: The proposed operation does not entail substantial risks. The experience gained during the first phase of the National Program for Sustainable Roads in Rural Areas (PNCSAR) has been used in the design of this operation, and the MOP Modernization Program has corrected the shortcomings that had profoundly affected the execution of highway programs in the past.

There is a risk that the procedures for approval of the loan contract with the Bank and its subsequent authorization by the Salvadorian legislature may take a long time, as has occurred with many of the loans approved by the Bank's Board of Executive Directors in recent years. However, in January 2001, the legislature approved four operations (loans 1041/OC-ES for modernization of the public sector; 1984/OC-ES for education technologies; 1092-OC-ES for modernization of the health sector; and 1203/OC-ES for modernization of the Legislative Assembly). For the five still pending, the Salvadorian authorities indicated that progress has been made in building consensus with the Legislative Assembly on their approval. In addition, MOP authorities are coordinating efforts with mayors and other local representatives, who will help create the consensus needed to approve the proposed program.

To mitigate the risk posed by many road rehabilitation programs concerning the continuity and quality of maintenance for the road system and the existing structural weaknesses in financing, planning, and managing road preservation, the program includes support for the government's Strategy for Sustainable Road Maintenance for implementation and consolidation of FOVIAL. The multiphase operation arrangement constitutes a guarantee and an important incentive to ensure the fulfillment of this strategy and the various benchmarks and goals established for the program.

**Special
contractual
conditions:**

A. Conditions precedent to the first disbursement

The executing agency will submit to the Bank: (i) the detailed action plan for program execution; (ii) evidence that FOVIAL has been allocated resources to enter into contract for maintenance of at least 500 km of the maintainable roads assigned priority during the first year of the program (paragraph 3.8); and (iii) evidence that a social specialist has been hired for the Environment Unit.

B. Other special contractual conditions

- a. Joint meetings of the executing agency and the Bank will be held annually to review fulfillment of the goals, objectives, efficiency indices, and other conditions agreed upon with the Bank (paragraph 3.20). The purpose of the meetings will be to monitor

the progress achieved in fulfilling the conditions for phase II to be approved. Any necessary adjustments in the action plan and projects for the following years will be agreed upon at these meetings, in accordance with the eligibility conditions agreed upon with the Bank (paragraph 3.9).

- b. Before any microenterprises can be hired under the maintenance plan, the Bank must approve the detailed action plan, the regulations on rating, and the draft contracts to be used (paragraph 3.17).
- c. To address the social and environmental concerns under the program, a clause will be included the loan contract stipulating that EIAs, PAMAs, and public consultations must be carried out in the project area of influence and the Bank's Involuntary Resettlement Policy (OP-710) must be followed if resettlement is required for any of the projects (paragraph 3.31).

Among other requirements, the loan contract will also include the Bank's standard conditions concerning technical and environmental standards, audits, reports, supervision, evaluations, maintenance, the hiring of consultants, and the procurement of goods and a provision stipulating that before contracts are awarded for program works, the consulting firm must have been hired to supervise the works.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity enhancing project, as defined in the key objectives for the Bank's activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704). However, it does not qualify as a poverty-targeted investment (PTI).

Although some of the selection criteria favor communities that have limited access to services and have remained on the periphery of economic development, it is impossible to guarantee that the program will be able to maintain the proportion of these kinds of communities required to qualify as a PTI on a long-term basis. According to the studies conducted, it is estimated that over half of the potential beneficiaries of most of the projects for the first year have incomes below the poverty line, and, in general, the works to be carried out under the program will help provide them with access to markets and productive and social services, thereby promoting social equity (paragraph 4.14).

Exceptions to Bank policy:

None.

Procurement: The awarding of contracts for works and consulting services and the procurement of equipment financed with the proceeds of the Bank loan will be carried out through competitive bidding, in accordance with the applicable Bank standards and procedures. International competitive bidding (ICB) will be required for procurement in amounts equal to or above US\$300,000. For works in amounts equal to or above US\$2 million, ICB with prequalification will be required. For consulting services in amounts above US\$200,000 equivalent, an international call for proposals will be required (paragraph 3.16).